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GENERAL STEEL WARES LIMITED ANNUAL REPORT FOR THE YEAR ENDED DECEMBER 31, 1966

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GENERAL STEEL WARES LIMITED

Prelude to the Future

In 1847, 20 years before Confederation, 22-year-old John McClary raised a hammer over a piece of metal. The blow rang through his small tinshop in London, Ontario, echoed onto the unpaved street and resounded down the corridors of time.

Out of that sound came the hum of a large Canadian industry—General Steel Wares Limited.

It seems unlikely that as he pounded and shaped his first pots and pans, this intent young man paused to gaze into the future. What he might have seen—and, indeed, John McClary did live to see—was the transition of his modest tinshop to a thriving industry within a thriving young nation. Before relinquishing his command he was to see McClary Products branching out to new frontiers of commerce. In time these markets stretched across the nation and finally around the world.

Eleven years after that hammer blow rang out from McClary's tinshop, another pioneer ventured into the newly-discovered territories of Canadian industry. Thomas Davidson, having mastered a new German technique for bonding glass to metal, opened the country's first enamelling plant in Montreal. The gleaming enamelled cookware assured Davidson's success.

While the Fathers of Confederation were building a new nation, a little known MacDonald was busy organizing a small stamping shop on Toronto's Queen Street, called the Dominion Tin and Stamping Works. Eighteen years later the Kemp brothers, A. E. (later Sir Edward) and William, acquired this business and re-located it at the corner of River and Gerrard Streets. The name was changed to the Kemp Manufacturing Company. A later merger changed the name again to Sheet Metal Products.

In 1874 George Beatty, a recently apprenticed farm equipment mechanic, and his brother Matthew, journeyed to Fergus, Ontario, where they invested their savings in making farm implements. They won many awards for excellence of design and performance in agricultural fairs, and a ready market was quickly established. Years later, the Beattys produced Canada's first electric washing machine.

Until 1927 each of these companies travelled its separate way, and then in the fall of that year six companies joined forces to form General Steel Wares of Canada.

Represented in this multi-million dollar industrial marriage was The McClary Manufacturing Company, The Thomas Davidson Company, Sheet Metal Products, A. Aubry et Fils, E. T. Wright and Sons, and The Happy Thought Foundry.

To augment its line of home appliances General Steel Wares purchased The Easy Washing Machine Company in 1958 and, less than three years later, Beatty Brothers became a GSW partner.

In this year of Canada's 100th Birthday, our company is justly proud of being an integral part of our country's story. John McClary, Thomas Davidson, Armand Aubry, The Kemps and The Beattys were among the founding fathers of Canada's industrial society.

BOARD OF DIRECTORS

R. M. Barford	D. S. Johnson
R. C. Berkinshaw	F. R. Johnson
G. R. Gardiner	D. S. R. Leighton
M. S. Hartley	Jean Raymond, Q.C.
Miss M. P. Hyndman, Q.C.	R. A. Stevens
Ben Wosk	

OFFICERS

R. M. Barford, *Chairman and President*
F. R. Johnson, *Executive Vice-President*
G. M. Farquharson, Q.C., *Secretary*

SHARE TRANSFER AGENTS

Preferred Shares, The Canada Trust Company
Common Shares, National Trust Company Limited

BANKERS—The Bank of Nova Scotia

AUDITORS—Clarkson, Gordon & Co.

GENERAL STEEL WARES LIMITED

Head Office—Toronto, Ontario

Report of the Board of Directors

To the Shareholders:

Sales decreased during 1966 from \$49,778,292 to \$48,942,704. This decrease was more than accounted for by the phasing out of our automotive parts business. Sales increased in the Beatty division, the United Kingdom and in our domestic Housewares business.

Operating profits increased from \$159,000 to \$290,000. There were substantial profit increases in the Beatty and Housewares divisions. The loss in the United Kingdom was reduced. These gains were offset in part by reduced profits in the Appliance division.

In addition to these operating profits your company realized gains of \$167,000 on the sale of some assets surplus to its requirements.

Research & Development:

Expenditures on tooling and engineering were higher in 1966, and we are forecasting lower spending to sustain this activity in 1967 and onwards. Because of this, the \$250,000 tooling reserve set up in 1963 to provide for the increased expenditures which were needed, has been returned to the surplus account.

One benefit from expenditures in this area has been improved product quality and reduced warranty expense in the past three years. As a result the warranty provision relative to the Appliance division was reduced during the year.

Capital Expenditures:

During 1966, your company enlarged its London operation with the purchase of land and a 60,000 sq. ft. building at a cost of \$226,000. Additions to fixed assets, including the foregoing, amounted to \$754,000.

Financial:

Working capital remained the same. Inventories were reduced by \$280,000, while Accounts Receivable rose \$170,000. Borrowings at year end were reduced by \$1,650,000. Interest charges remained at the same level as 1965, on lower borrowings, due to higher interest charges.

Surplus Adjustment:

During 1966, the Miranda plant in Toronto was sold, at a gain of \$134,000. The excess of cost of common shares of Easy of \$507,245, previously shown on the balance sheet, less the gain on this sale has been written off against the earned surplus account.

Report of the Board of Directors (*cont'd*)

Personnel:

In October of 1966, F. Ross Johnson joined your company as Executive Vice President, and General Manager of the Appliance division. He was also elected to your Board of Directors.

Harry R. Phillips, formerly General Manager of Housewares became Managing Director of General Steel Wares (U.K.) Ltd. and George S. Dickson, General Manager of Industrial Products, assumed similar duties in the Montreal Housewares division.

Gage Campbell, Executive Vice President and Vice Chairman of the Board retired after 39 years of distinguished service with your company.

Board of Directors:

During the year, Norman Robertson, Q.C. retired from the Board. Professor David S. R. Leighton of the University of Western Ontario, Ben Wosk, an outstanding Vancouver businessman, and Maurice S. Hartley, General Manager of Brush Instruments of Cleveland, Ohio, joined the Board, and we are pleased to have their counsel available to your company.

General:

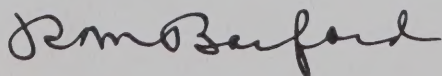
The efforts made to strengthen your company have resulted in improvements in terms of products, market share and profit for most of your divisions. The Appliance division is continuing to absorb high product development costs on a current basis. These costs are not yet offset by new product revenue.

We feel your company is much stronger as 1967 begins, and that it is reaching the point of capitalizing on the investments made during the past several years.

You will note on the cover of this year's report General Steel Ware's new corporate symbol **GSW**. This symbol will appear in future on all our consumer products and company literature and represents, we feel, an excellent vehicle to communicate the high value and quality of our products. The Board extends to all employees its appreciation for their loyal support and co-operation throughout the year.

Toronto, March 9, 1967

On behalf of the Board



President

Facts in Brief

GENERAL STEEL WARES LIMITED AND SUBSIDIARIES

	1966	1965
Net sales - - - - -	\$48,942,704	\$49,778,292
Net profit for year - - - - -	401,233	204,982
Charges to surplus—net - - - - -	122,817	
Dividends - - - - -	162,025	177,300
Increase in earned surplus for year - - - - -	116,391	27,682
Bank loan and short term notes (less cash) - - - - -	3,738,057	5,396,167
Total current assets - - - - -	18,456,776	19,269,382
Total current liabilities - - - - -	10,089,528	10,896,521
Ratio—current assets to current liabilities - - - - -	1.8 to 1	1.8 to 1
Working capital - - - - -	8,367,248	8,372,861

Statement of Financial Activities

FOR THE YEAR ENDED DECEMBER 31, 1966

Factors which provided cash:

Operations—

Net profit - - - - -	\$289,856	
Depreciation and amortization - - - - -	854,322	
Amortization of excess cost of Beatty Bros. Limited assets acquired - -	97,500	\$1,241,678

Sale of land and buildings (less mortgage taken back) - - - - - 451,574

Increase in accounts payable and other liabilities - - - - - 765,660

Reduction of assets—

Inventories - - - - -	279,736	
Prepaid expenses - - - - -	57,986	
Mortgage receivable - - - - -	650,000	987,722

3,446,634

Factors which required cash:

Fixed asset additions—net - - - - -	763,794	
Reduction of funded debt - - - - -	407,000	
Redemption of preferred shares - - - - -	278,936	
Increase in accounts receivable - - - - -	176,769	
Payment of dividends on preferred shares - - - - -	162,025	1,788,524

Decrease in bank loan and short term notes (net) - - - - - \$1,658,101

Consolidated Balance Sheet/December 31, 1966

(with comparative figures for 1965)

GENERAL STEEL WARES LIMITED AND SUBSIDIARIES

(Incorporated under the laws of Canada)

ASSETS

	<u>1966</u>	<u>1965</u>
Current assets:		
Cash - - - - -	\$ 28,350	\$ 30,003
Accounts receivable, less allowance for doubtful accounts - - - - -	5,807,947	5,631,178
Inventories, valued at the lower of cost and market - - - - -	12,313,656	12,593,392
Prepaid expenses and manufacturing supplies - - - - -	306,823	364,809
Mortgage receivable - - - - -		650,000
Total current assets - - - - -	<u>18,456,776</u>	<u>19,269,382</u>
Mortgage receivable - - - - -	<u>266,700</u>	
Fixed assets:		
Land, buildings and equipment, at cost - - - - -	15,969,050	16,300,952
Less accumulated depreciation - - - - -	<u>11,978,794</u>	<u>11,838,696</u>
	<u>3,990,256</u>	<u>4,462,256</u>
Other assets:		
Excess of cost over net book value of assets acquired from Beatty Bros. Limited, less amortization - - - - -	1,657,500	1,755,000
Licence and tooling in connection with a new business acquired, less amortization - - - - -	216,000	316,000
Excess of cost of common shares of The Easy Washing Machine Company, Limited over book value thereof at date of acquisition - - - - -		507,090
Engineering, tooling and patent cost, less amounts written off - - - - -	<u>1</u>	<u>1</u>
	<u>1,873,501</u>	<u>2,578,091</u>

On behalf of the Board:

R. M. BARFORD, Director

R. A. STEVENS, Director

\$24,587,233 \$26,309,729

LIABILITIES

	1966	1965
Current liabilities:		
Bank loan - - - - -	\$ 366,407	\$ 426,170
Short term notes - - - - -	3,400,000	5,000,000
	<u>3,766,407</u>	<u>5,426,170</u>
Accounts payable - - - - -	5,481,523	4,729,145
Income and other taxes payable - - - - -	349,601	429,199
Dividends payable - - - - -	39,520	43,282
Due to Beatty Bros. Limited - - - - -	264,477	77,683
Sinking fund instalments of funded debt due within one year - - - - -	188,000	119,000
Sinking fund for preferred share redemption - - - - -		72,042
Total current liabilities - - - - -	<u>10,089,528</u>	<u>10,896,521</u>
Provision for warranties - - - - -	500,000	600,000
Funded debt (note 2) - - - - -	3,235,000	3,711,000
Accumulated tax reductions applicable to future years - - - - -	180,500	180,500
Reserve for future tooling costs - - - - -		250,000
	<u>14,005,028</u>	<u>15,638,021</u>
Shareholders' equity:		
5% cumulative preferred shares of \$100 each redeemable at \$105—		
Authorized, less redeemed:		
56,536 shares		
Outstanding:		
31,616 shares (3,010 shares were purchased for cancellation in 1966)	3,161,600	3,462,600
Less sinking fund for preferred share redemption - - - - -		72,042
	<u>3,161,600</u>	<u>3,390,558</u>
Common shares without nominal or par value—		
Authorized:		
1,000,000 shares		
Outstanding:		
628,929 shares (of which 125 shares were issued in 1966) - - -	4,405,414	4,404,414
Contributed surplus - - - - -	110,565	88,501
Earned surplus (of which \$1,225,600 is designated as capital surplus under Section 61 of the Canada Corporations Act) - - - - -	2,904,626	2,788,235
	<u>7,420,605</u>	<u>7,281,150</u>
Total shareholders' equity - - - - -	<u>10,582,205</u>	<u>10,671,708</u>
	<u>\$24,587,233</u>	<u>\$26,309,729</u>

See accompanying notes to financial statements

Consolidated Statements of Earned Surplus and Contributed Surplus

YEAR ENDED DECEMBER 31, 1966 (with comparative figures for 1965)

GENERAL STEEL WARES LIMITED AND SUBSIDIARIES

EARNED SURPLUS

	<u>1966</u>	<u>1965</u>
Balance, beginning of year - - - - -	\$ 2,788,235	\$ 2,760,553
Add:		
Net profit for the year - - - - -	401,233	204,982
Reserve for future tooling cost, no longer required - - - - -	<u>250,000</u>	<u>250,000</u>
	<u>3,439,468</u>	<u>2,965,535</u>
Deduct:		
Dividends on preferred shares - - - - -	162,025	177,300
Excess of cost of common shares of The Easy Washing Machine Company, Limited over the book value thereof at dates of acquisition - - - - - \$507,245		
Less gain on sale of Easy plant - - - - - <u>134,428</u>	<u>372,817</u>	<u>372,817</u>
	<u>534,842</u>	<u>177,300</u>
Balance, end of year - - - - -	<u>\$ 2,904,626</u>	<u>\$ 2,788,235</u>

CONTRIBUTED SURPLUS

Balance, beginning of year - - - - -	\$ 88,501	\$ 83,501
Add profits on purchase of preferred shares - - - - -	<u>22,064</u>	<u>5,000</u>
Balance, end of year - - - - -	<u>\$ 110,565</u>	<u>\$ 88,501</u>

Consolidated Statement of Profit and Loss

YEAR ENDED DECEMBER 31, 1966 (with comparative figures for 1965)

GENERAL STEEL WARES LIMITED AND SUBSIDIARIES

	1966	
Net sales - - - - -	\$48,942,704	\$49,778,292
Less cost of sales, selling and administrative expenses before providing for the undernoted items - - - - -	47,131,020	
	<u>1,811,684</u>	
Interest on funded debt - - - - -	158,174	
Interest on other loans - - - - -	411,832	
Depreciation - - - - -	754,322	
Amortization of licence and tooling in connection with a new business acquired in 1964 - - - - -	100,000	
Amortization of excess cost of Beatty Bros. assets acquired - - - - -	97,500	
	<u>1,521,828</u>	
Net operating profit before income taxes and special items (Note 3) - - -	289,856	
Income taxes recoverable - - - - -		
	<u>289,856</u>	
Gain on fixed asset disposals - - - - -	167,414	
Excess of cost of assets of Quality Farm Equipment Limited over book value, written off - - - - -	(56,037)	
Net profit for the year - - - - -	<u>\$ 401,233</u>	

See accompanying notes to financial statements

Notes to the Consolidated Financial Statements

YEAR ENDED DECEMBER 31, 1966

GENERAL STEEL WARES LIMITED AND SUBSIDIARIES

1. Subsidiary companies consolidated

The consolidated financial statements reflect a consolidation of General Steel Wares Limited and its subsidiaries, The Easy Washing Machine Company, Limited, General Steel Wares (U.K.) Ltd., Beatty Bros. Incorporated, and several other small subsidiaries.

The consolidated financial statements reflect the translation of pounds sterling into Canadian dollars at £1 equals \$3.

2. Funded debt

Details of this debt are as follows:

	<u>Outstanding</u>	<u>Sinking fund instalment due within one year</u>	<u>Net</u>
General Steel Wares Limited—			
First Mortgage Bonds:			
Series "A"—3½%, due May 1, 1970	\$1,963,000	\$122,000	\$1,841,000
Series "B"—5%, due April 15, 1973	1,460,000	66,000	1,394,000
	<u>\$3,423,000</u>	<u>\$188,000</u>	<u>\$3,235,000</u>

The total amount of General Steel Wares bonds authorized was \$8,000,000. Of these, \$1,500,000 have not been issued.

3. No income taxes have been provided for the year, since the company intends to claim additional expenses in arriving at taxable income, including a claim for expenses relating to scientific research.

4. Fees and salaries

Directors' fees and remuneration of salaried directors amounted to \$158,656 for 1966.

Auditors' Report

To the Shareholders of
General Steel Wares Limited:

We have examined the consolidated balance sheet of General Steel Wares Limited and its subsidiary companies as at December 31, 1966 and the consolidated statements of profit and loss, earned surplus, contributed surplus and financial activities for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion the accompanying consolidated balance sheet and consolidated statements of profit and loss, earned surplus, contributed surplus and financial activities present fairly the financial position of the company as at December 31, 1966, the results of its operations and the sources and application of cash for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Clarkson, Gordon & Co.

Chartered Accountants

Toronto, Canada,
March 2, 1967.

Canada



No one knows my country, neither the stranger nor its own sons. My country is hidden in the dark and teeming brain of youth upon the eve of its manhood . . . No, they could not have known us, the strangers, for we have not known ourselves . . .

Long we have been a-growing—of two bloods, French and British, slow to be reconciled in one body . . . we have not learned our own proud story nor tested our own strength. But no longer are we children. Now our time is come and if not grasped will be forever lost . . .

Wondrous and very sweet is our name. Canada! The very word is like a boy's shout in the springtime, is like the clamor of geese going north and the roar of melting rivers and the murmur of early winds.

. . . But we have not grasped it yet, the full substance of it, in our hands, nor glimpsed its size and shape. We have not yet felt the full pulse of its heart, the flex of its muscles, the pattern of its mind. For we are very young, my brothers, and full of doubt, and we have listened too long to timid men. But now our time is come and we are ready.

Excerpts from THE UNKNOWN COUNTRY by
Bruce Hutchison. Reprinted with permission
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The Divisions of the Company

and the Products they Market

GSW APPLIANCE DIVISION

AIR CONDITIONING AND COIN LAUNDRY DIVISION

GSW Fedders window and central air conditioning.
McClary Easy coin and push-button laundry
equipment for apartments and coin laundries.

BEATTY APPLIANCE COMPANY

Electric ranges. Refrigerators. Chest freezers.
Automatic washers and dryers. Wringer washers.

BELWOOD APPLIANCE COMPANY

Ultra low temperature freezers for industrial and
commercial applications. Chest freezers for
food plan distributors.

BUILDING PRODUCTS DIVISION

Metal lockers. Fire doors. Hollow metal doors and
frames. Toilet and shower partitions for
commercial applications.

EXPORT DIVISION

All products of the company.

GENERAL STEEL WARES (U.K.) LTD.

Warm air heating. Coin laundry equipment.

McCLARY EASY DIVISION

Electric ranges. Refrigerators.
Chest freezers. Wringer washers. Automatic
washers and dryers.

SERVICE DIVISION

Replacement parts and field service.

BEATTY DIVISION

BEATTY FARM EQUIPMENT COMPANY

Forage wagons. Manure spreaders. Harrows.
Bale bunchers. Silo unloaders. Gutter cleaners.
Mechanical feeding equipment. Steel pens and stalls.

BEATTY PUMP COMPANY

Direct-drive shallow and deep well piston pumps.
Jet pumps. Submersible pumps. Cistern pumps.
Sump pumps. Water conditioners.

BEATTY GATOR TRAILER DIVISION

Boat and snowmobile trailers.

McDOUGALL PUMP COMPANY

Direct-drive shallow and deep well piston pumps.
Jet pumps. Submersible pumps. Cistern pumps.
Sump pumps. Water conditioners.

GSW HOUSEWARES DIVISION

Stainless steel and aluminum cooking utensils.
Lithographed pantry ware and a wide range
of metal household and related products.
Shower cabinets.

GSW WATER HEATER DIVISION

Domestic gas and electric water heaters. Range boilers.

INDUSTRIAL PRODUCTS DIVISION

Many products are made to specification for
Canadian manufacturers such as: Porcelain
enamelled tubs and wringers for the laundry
industry. Transformer tanks. Concrete roofing forms.
Special lithographed items such as buffet trays.

